



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

SUBJECT: [REDACTED]

Date: [REDACTED]

Contact Person: [REDACTED]

Identification Number: [REDACTED]

Contact Number: [REDACTED]

Employer Identification Number: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(9). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

According to the information in your application, you were created by agreement between [REDACTED] and [REDACTED] executed on [REDACTED]. You are funded solely by a one-time payment (the "demutualization proceeds") from [REDACTED].

You were formed for the sole purpose of holding the demutualization proceeds and making cash distributions to eligible individuals therefrom. Individuals eligible to receive a distribution were those who: (1) were employees of [REDACTED] as of [REDACTED]; (2) were participants in the Group Term Life Insurance Plan; and (3) had elected to purchase supplemental life insurance coverage under the Plan.

You received and distributed demutualization proceeds of approximately [REDACTED]. Distributions ranged from [REDACTED] and were made by the [REDACTED] in accordance with the instructions of the Plan Administrator and section 3.1 of your trust agreement. By the end of [REDACTED], you had distributed all of the demutualization proceeds and held no other assets.

Section 501(a) of the Code provides that organizations described in section 501(c) are exempt from federal income taxation unless denied exemption under section 502 or 503.

Section 501(c)(9) of the Code describes voluntary employees' beneficiary associations providing for the payment of life, sick, accident or other benefits to the members of such association or their dependents or designated beneficiaries, if no part of the net earnings of such association inures (other than through such payments) to the benefit of any private

shareholder or individual.

Section 1.501(c)(9)-3(a) of the Income Tax Regulations provides that an organization is not described in section 501(c)(9) of the Code if it systematically and knowingly provides benefits (of more than a de minimis amount) that are not permitted by paragraphs (b), (c), (d), or (e) of this section.

Section 1.501(c)(9)-3(b) of the regulations provides that the term "life benefits" means a benefit payable by reason of the death of a member or dependent.

Section 1.501(c)(9)-3(d) of the regulations provides that the term "other benefits" includes only benefits that are similar to life, sick, or accident benefits. A benefit is similar to a life, sick, or accident benefit if (1) it is intended to safeguard or improve the health of a member or a member's dependents, or (2) it protects against a contingency that interrupts or impairs a member's earning power.

Section 1.501(c)(9)-3(f) of the regulations provides that the term "other benefits" does not include the provision of savings facilities for members. In addition, the term "other benefit" does not include any benefit that is similar to the benefit provided under a stock bonus or profit-sharing plan. For purposes of section 501(c)(9) and the regulations thereunder, a benefit will be considered similar to that provided under a pension, annuity, stock bonus, or profit-sharing plan if it provides for deferred compensation that becomes payable by reason of the passage of time, rather than as the result of an unanticipated event.

Section 1.501(c)(9)-4(c) of the regulations provides that the rebate of excess insurance premiums, based on the mortality or morbidity experience of the insurer to which the premiums were paid, to the person or persons whose contributions were applied to such premiums, does not constitute prohibited inurement.

The information you submitted indicates that your sole "benefit" was a distribution of cash out of the demutualization proceeds to participants in the [redacted] Group Term Life Insurance Plan who had purchased supplemental life insurance. Such benefit does not constitute a life benefit or other qualifying benefit under section 1.501(c)(9)-3 of the regulations. Rather, it is similar to a savings plan or to deferred compensation, and, therefore, is a nonqualifying benefit.

In appropriate circumstances, a VEBA is permitted to rebate excess premiums received from mutual insurance companies as the group policyholder to its members. In such situations, however, the VEBA is engaged in providing qualifying benefits to its members through the purchase of group insurance. In your case, you have not provided any qualifying benefits and have no apparent purpose to do so.

Moreover, you have not established that demutualization proceeds are treated like rebates of excess premium payments for tax purposes with respect to basis and taxable income to the recipients.

[REDACTED]

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(9) of the Code and you must file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views to this office, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and a copy will be forwarded to the Ohio Tax Exempt and Government Entities (TE/GE) office. Thereafter, any questions about your federal income tax status should be directed to that office, either by calling 877-829-5500 (a toll free number) or sending correspondence to: Internal Revenue Service, TE/GE Customer Service, P.O. Box 2508, Cincinnati, OH 45201.

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

[REDACTED]

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

[REDACTED]

cc:

[REDACTED]

[REDACTED]

[REDACTED]